

November 20, 2012

Via Federal Express

Ms. Sauntia Warfield
Assistant Secretary
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: National Futures Association: Proficiency Requirements for Security
Futures Products – Proposed Amendment to the Interpretive Notice to
NFA Compliance Rules 2-7 and 2-24 and Registration Rule 401:
Proficiency Requirements for SFPs*

Dear Ms. Warfield:

Pursuant to Section 17(j) of the Commodity Exchange Act, as amended, National Futures Association (“NFA”) hereby submits to the Commodity Futures Trading Commission (“CFTC” or “Commission”) a proposed amendment to the Interpretive Notice entitled *NFA Compliance Rules 2-7 and 2-24 and Registration Rule 401: Proficiency Requirements for Security Futures Products*. NFA’s Board of Directors (“Board”) approved the proposal on November 15, 2012.

NFA is invoking the “ten-day” provision of Section 17(j) of the Commodity Exchange Act (“CEA”) and will make the proposal effective ten days after receipt of this submission by the Commission unless the Commission notifies NFA that the Commission has determined to review the proposal for approval.

PROPOSED AMENDMENTS

(additions are underscoring and deletions are ~~stricken through~~)

INTERPRETIVE NOTICES

**NFA COMPLIANCE RULES 2-7 AND 2-24 AND REGISTRATION RULE 401:
PROFICIENCY REQUIREMENTS FOR SECURITY FUTURES PRODUCTS**

The Commodity Futures Modernization Act of 2000 amended the Securities Exchange Act of 1934 to require NFA to "have rules that ensure that members and natural persons associated with members meet such standards of training, experience, and competence necessary to effect transactions in security futures products and are tested for their knowledge of securities and security futures products."¹ NFA is in the process of updating the Series 3 examination to include questions applicable to security futures products. However, current registrants, and persons who become registered before the Series 3 examination is updated, will be allowed to meet the proficiency requirements by taking an appropriate training course before they engage in activities involving security futures products. This notice describes the conditions under which Members and Associates can substitute training for testing.

Current NFA Members and Associates will be able to satisfy their proficiency requirements for security futures by taking any training program that covers the subject matter included in a content outline that has been jointly developed by NFA, the Financial Industry Regulatory Authority, and a number of securities and futures exchanges. A copy of that outline can be found on NFA's website at www.nfa.futures.org. New registrants can also qualify through training if they take the Series 3 examination and apply for registration before the revised examination becomes available. **THE TRAINING MUST BE COMPLETED BEFORE AN INDIVIDUAL REGISTRANT ENGAGES IN ACTIVITIES INVOLVING SECURITY FUTURES PRODUCTS.** Any registrant who is eligible to qualify through training has until December 31, 2015 before that eligibility lapses. Registrants who subsequently decide to engage in security futures activities will be required to take the relevant examination.²

NFA, in partnership with the Financial Industry Regulatory Authority and the Institute for Financial Markets, has developed a web-based training program that will satisfy the training requirement. That program can be accessed at www.nfa.futures.org. There is no charge for completing this training program.

NFA is also in the process of updating the Series 30 examination to include questions regarding security futures for persons who are designated security futures principals under NFA Compliance Rule 2-7. In order to qualify as a designated security futures principal, current supervisors may take a portion of the training program devoted to supervisory issues as well as the portions intended for all Associates as long as they do so before the revised Series 30

examination becomes available. After the revised Series 30 becomes available, only individuals who were qualified as branch office managers before that date may qualify as security futures principals by taking the training program in lieu of taking a supervisory proficiency exam, and those individuals must take the training program by December 31, 2012~~15~~.

NFA Members and Associates are not required to notify NFA that they have completed a training program. However, Members must be able to demonstrate to NFA during an audit that those registered individuals who are engaging in security futures activities have completed the necessary training. For example, Members could keep records of Associates who attend internal training programs or require Associates to provide certificates of completion for outside training programs.

¹ Section 15A(k)(2)(D) of the Securities Exchange Act of 1934.

² Securities registrants will be subject to these same standards, although the examinations that qualify them to trade security futures products will be different.

EXPLANATION OF PROPOSED AMENDMENTS

The Commodity Futures Modernization Act of 2000 amended the Securities Exchange Act of 1934 to require NFA to "have rules that ensure that members and natural persons associated with members meet such standards of training, experience and competence necessary to effect transactions in security futures products and are tested for their knowledge of securities and securities futures products."¹

In 2001, NFA and FINRA (then NASD) adopted temporary relief allowing registrants to qualify to engage in security futures activities by completing a training program rather than taking an exam. That relief has been extended three times and is currently set to expire on December 31, 2012.

NFA and FINRA proposed the three prior extensions, and the CFTC and SEC agreed to them, because of the low trading volume in SFPs and the relatively few registrants engaging in security futures activities. These characteristics made the

¹ Section 15A(k)(2)(D) of the Exchange Act.

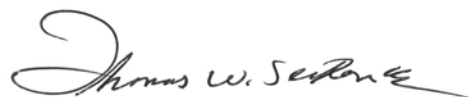
imposition of a qualifications exam an inefficient option, and the same reasons are equally compelling today.

In 2002 NFA, FINRA, and the Institute for Financial Markets partnered together to develop a free web-based training program consisting of a series of modules intended to satisfy the training requirement (SRO Training Modules). Although the SRO Training Modules are not the only program that NFA and FINRA Members can use to satisfy their proficiency requirements, NFA is not aware of any alternative formal training programs that firms use. From 2002 through September 2012, just under 15,000 individuals have completed the SRO Training Modules. Of this number, 9,824 individuals are registered with FINRA (including joint registrants) and 4,721 individuals are registered only with the CFTC. Most of these individuals took the SRO Training Modules in the first couple of years after SFPs began trading, and traffic has decreased since then. In 2011, only 71 registered individuals completed the SRO Training Modules (47 CFTC-only registrants). This compares with the approximately 4,500 people who took the Series 3 exam last year.

The proposed amendment to the Interpretive Notice will extend the proficiency testing relief another three years until December 31, 2015.

As mentioned earlier, NFA is invoking the “ten-day” provision of Section 17(j) of the Commodity Exchange Act. NFA intends to make the amendment to the Interpretive Notice entitled *NFA Compliance Rules 2-7 and 2-24 and Registration Rule 401: Proficiency Requirements for Security Futures Products* effective ten days after receipt of this submission by the Commission, unless the Commission notifies NFA that the Commission has determined to review the proposal for approval.

Respectfully submitted,



Thomas W. Sexton
Senior Vice President and
General Counsel

*The proposed amendments to the Interpretive Notice are effective February 21, 2013.